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DPD-4977-59

20 July 1959

Dear Jack:

I am attaching a copy of our Auditor's Survey Report and his recommendations concerning your current property control procedures. I believe the report and its recommendations were discussed with you at the time of the Survey and you indicated your willingness to comply with the recommendations.

In view of the foregoing, I would appreciate receiving a time schedule for accomplishing the recommended actions and submit for review, written procedures when completed.

Sincerely,

DAN

Enclosure:

Copy 2 of DPD-4956-59

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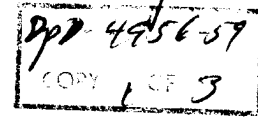
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DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON 25, D. C.

#532



REPLY TO:

Auditor General  
Comptroller, USAF  
Eastern District  
Audit Liaison Office  
PO Box 8155, SW Stn  
Washington, D. C.

15 July 1959

SUBJECT: Report on Survey of Procedures for the Control  
of Customer-Provided\* Property  
Lockheed Aircraft Corporation  
Missile Systems Division  
Palo Alto, California  
Contract RT-100

TO: Contracting Officer

1. General Comments:

A survey has been performed of selected property records, procedures and controls, maintained by the contractor in connection with customer-provided\* property arising out of subject contract.

2. Items of Non-expendable Property Having Unit Cost Under \$50.00:

The contractor treats these items as expendable property in that no tags are affixed or accountable records maintained. Based upon the examination made the auditor is of the opinion that items in this category are of minor significance and has offered no recommendations therefor.

3. Results of Examination:

It is our opinion that the property procedures being followed in performing under the contract are generally adequate. However, procedures have not been fully covered in writing, a consistent policy for taking physical inventories should be established and charges for material originating from the contractor's main facility need closer surveillance. Findings of the auditor are briefly commented upon below. Detailed explanation, together with the auditor's recommendations are contained in the referenced schedules.

\*Customer-furnished and Contractor-purchased

a. Schedule 1: Written procedures covering all major areas of a property control system applicable to the work performed under the contract have not been developed.

b. Schedule 2: Responsibility for control of property and maintenance of adequate accountable records has not been spelled out in writing.

c. Schedule 3: The contractor does not identify expendable and non-expendable property on purchase requisitions.

d. Schedule 4: Control over charges for expendable property is considered weak in certain areas.

e. Schedule 5: Procedures for the control over the movement of non-expendable customer-provided property have not been set forth in writing.

f. Schedule 6: The practice of taking periodic physical inventories, of all classes of customer-provided property arising out of the contract, has not been established.

In making the foregoing recommendations, recognition is given to the follow-on (1960) Program, for which we understand the contractor recently submitted its proposal.

4. Discussion of Survey Findings: The results of this survey were discussed with Mr. Jack Linn, Project Manager, who concurred with the auditor's findings and agreed to implement procedures which will accomplish the intent of the recommendations.

5. Action Recommended: Since the contractor's representative has expressed a willingness to comply with the auditor's recommendations, it is suggested that a copy of the survey report and the supporting schedules be furnished Mr. Jack Linn. The contractor should be requested to furnish a time schedule for accomplishing recommended action and submit for review, written procedures when completed, with copies for the auditor.



W. H. Gross  
Audit Liaison Officer  
Eastern District  
Auditor General

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Schedule 1

Written Procedures for the Control of Customer-Provided Property

Finding:

The contract provides that all property other than that furnished directly by the Government is subject to the provisions of AFPI 13-504 and Clause 39 of the General Provisions. Clause 39 of the General Provisions states, in part:

"The contractor agrees that it will follow its normal industrial practice in maintaining property control records on all special tooling....."

This is interpreted as making applicable the contractor's special tooling procedures for the control of all property not directly furnished by the customer. The contractor's written procedure for the control of project tooling has been reviewed and is considered adequate. However, the procedure actually practiced deviates from the written procedure in many respects due to the limitations imposed by security requirements of the contract. Written procedures covering all major areas of a property control system applicable to the work performed under the contract have not been developed.

Recommendation:

1. The contractor's established written procedures should be followed, where applicable, without deviation.
2. Written procedures should be developed for specific application to the contract, where modification of established procedures is necessary under the terms of the contract.

Schedule 2

Responsibility for Control of Property and Adequacy of  
Accountable Records

Finding:

The contractor has designated the project manager to perform control function over customer-provided property. Although this individual has been charged with responsibility, procedures covering exact function and duties have not been spelled out in writing.

As a minimum, the function and duties to be covered should include:

1. Establishment of adequate control records:
  - a. Non-expendable property from all sources, including test equipment, etc., fabricated by the contractor.
  - b. Contractor-fabricated tooling.
  - c. Vendor-furnished tooling.
2. Maintenance of files containing documents evidencing the receipt and shipment of expendable property including customer furnished as well as that acquired by the contractor.
3. Detailed review of all accountable property records for adequacy, completeness and accuracy.
4. Assurance that all accountable property records are maintained in such condition that the status of customer owned property may be readily ascertained at any stage of performance of the contract.
5. Assurance that physical inventories are taken without delay at all locations where customer-owned property has been used or is located, and reconciled to the accountable property records. Thereafter, physical inventories should be taken periodically.

Recommendation:

Procedures, covering the function and duties for which the individual designated to control property is responsible, should be reduced to writing by the contractor.

Schedule 3

Procurement of Non-Expendable Property

Findings:

The contractor's established procurement procedures require the coding of purchase requisitions and purchase orders to identify the nature of the purchase. Codes are provided for direct material, test equipment and ground support equipment, property purchased for test and evaluation, project tooling, and outside experimental, research and development services. This system of coding has not been practiced on the project under survey. However, the contractor's project manager has done an excellent job of establishing accountable property records and tagging property. Furthermore, there may be valid reasons for not coding purchase orders.

Recommendations:

1. To assure prompt initiation of accountable property records, provide complete purchase documents, and facilitate audit, it is recommended that the contractor establish a procedure for identifying, on purchase requisitions, the nature of purchases, e.g., direct material, non-expendable property, outside services, etc.

2. It is further recommended that such procedure be set forth in writing and consistently applied.

Schedule 4

Expendable Property

Finding:

Contractor acquires expendable property from the following sources:

1. Purchased directly by the Palo Alto facility.
2. Furnished by customer thru subcontractors.
3. Purchased thru or furnished by contractor's other facilities.

No stock records are maintained to control items of expendable property; such items are delivered to the small work area confined in the isolated Palo Alto facility. It is not the intent of the auditor to unduly burden the contractor with elaborate record keeping for such items. However, it is considered desirable that documentation reflecting authorized purchase or request and subsequent receipt of such items is readily available. No problems exist with respect to the first two categories above; full documentation is available at the project facility. In connection with the latter category, acquisitions initiated by other than project personnel present somewhat of a problem. Supporting documents for the latter items are filed at the contractor's Sunnyvale facility and it is possible for erroneous charges to be made against the Project.

Recommendations:

1. The contractor should provide the project manager with a weekly detailed list of those material charges for which supporting documents are filed at the Sunnyvale Plant.
2. The project manager should indicate his approval or disapproval on these lists and keep them filed for reference.

Schedule 5

Control Over the Movement of Non-expendable Customer-Provided Property

Finding:

Control over test equipment and other items of non-expendable customer-provided property which is removed from time to time from the contractor's facility for use at other locations appears to be adequate. However, the procedures followed to accomplish this control have not been stated in writing.

Recommendation:

Procedures covering control over the movement of non-expendable customer-provided property should be reduced to writing by the contractor. These should include provision for authorization to remove property from the facility and control of off-duty access to buildings.



Schedule 6

Physical Inventories

Finding:

Although the contractor's project manager has verbally indicated that physical spot checking of property has been accomplished, no documents exist in support of such action. Furthermore, procedures for taking physical inventories have not been put in writing. The types of customer-provided non-expendable property involved are listed below:

1. Contractor-purchased specialized test, check-out and handling equipment.
2. Contractor-fabricated items of the same types enumerated in 1. above.
3. Customer or Government-furnished items of the same types enumerated in 1. above.
4. Vendor-fabricated tooling.
5. Contractor fabricated tooling.

Recommendations:

1. A program should be developed by the contractor for accomplishing physical inventories of all categories of customer-provided property acquired under the contract.

2. Detailed written procedures should be developed and applied without delay. In the interest of completeness and accuracy, the desirability of adequate written procedures is considered especially applicable to inventories of customer-provided non-expendable property located at sites away from the contractor's facility.

3. A practice of taking periodic physical inventories of all classes of customer-provided property should be adopted and consistently followed.